HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK

Gatineau[1]

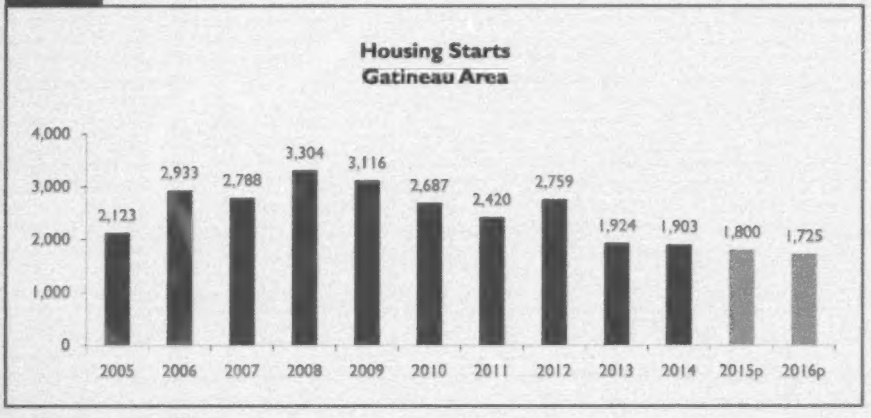
CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Spring 2015

Highlights

- Economic and demographic conditions will modestly support demand on the Gatineau real estate market, which will post small gains in 2015 and 2016.
- Residential construction will experience an adjustment over the next two years.
- Centris® sales will edge higher this year and next.
- The rental apartment vacancy rate will remain above 6 per cent over the forecast horizon.

Figure 1



Source: CMHC f: CMHC forecasts

[1] Quebec part of Ottawa-Gatineau CMA

The outlook is subject to uncertainty. Although point forecasts are presented in this publication, CMHC also presents risks where appropriate. The forecasts and historical data included in this document reflect information available as of April 20, 2015.

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New home market: the adjustment will continue over the next two years

After decreasing last year, housing starts will continue to slow down in 2015 and 2016 in the Gatineau area. The abundant supply of units available on the new and existing home markets will limit the need for new units. The new home market will go through an adjustment phase, as builders will be called upon to adjust their pace of activity in order to clear the units in their inventories. Meanwhile, employment and the population will rise slightly while mortgage rates will remain low. All together, these fundamentals will promote a slight increase in housing demand, which will contribute to dampening the anticipated decrease in residential construction. Overall, housing starts will slow down in 2015, reaching 1,800 units (-5 per cent). In 2016, housing starts will decrease again, falling to 1,725 units (-4 per cent). Activity on the new home market will therefore remain below the average of the last several years.[2]

The decline in residential construction will be observed in the single-detached housing segment, but especially in the multi-unit housing segment.

In the single-detached home segment, housing starts will remain limited over the next few years. In addition to the factors previously mentioned, the lower availability of lots in the area and the implementation of the City of Gatineau's new land use and development plan aimed at increasing housing density on its territory will restrict the construction of homes of this type. In fact, most new single-detached homes will continue to be started in the sectors located on the outskirts of the city of Gatineau. Single-detached housing starts will reach 450 units in 2015 (-6 per cent) and 425 units in 2016 (-6 per cent).

In the multi-unit housing segment, the apartment category will experience the most pronounced adjustment.

In the case of condominium apartments, moderate demand from buyers, combined with the wide choice of units on the existing and new home markets, will prompt builders to slow down their pace of activity in 2015. In fact, the inventory of newly completed and unabsorbed condominium apartments remains at a historically high level.[3] Also, many builders are tempted to turn to renting in order to clear the units in their inventories. This option could be particularly popular in Île-de-Hull, a sector of the city of Gatineau targeted by the municipal tax refund program for new residential construction.[4] Some large condominium projects are expected to get under way in 2016, which will result in a slight increase in housing starts. However, starts will remain below the average levels recorded in the past few years.

Rental housing apartment construction will slow down in 2015 and 2016. The slowdown in the demand for traditional rental units and the competition from rental condominiums have contributed to the significant easing on this market since 2012. With a vacancy rate that will remain relatively high over the next few years, the need for new rental apartments will remain low, which will curb the construction of new units. Nevertheless, the construction of some units for the retirement home market will limit the anticipated decrease over the forecast horizon.

In all, apartment starts will reach 825 units in 2015 (-14 per cent) and 775 units in 2016 (-6 per cent).

As for semi-detached and row homes, they will be the housing type that will manage to do well on the new home market and limit the decrease in activity in the multi-unit housing segment. With their relatively greater affordability and higher density than single-detached houses, semi-detached and row homes will continue to be increasingly widespread over the next two years, particularly within the city of Gatineau. Foundations will be laid for 500 semi-detached and row homes in 2015 (+6 per cent) and for 525 more in 2016 (+5 per cent).

Multi-unit housing starts will therefore drop to 1,350 units in 2015 (-5 per cent) and then to 1,300 units in 2016 (-4 per cent).

Existing home market: conditions will remain favourable to buyers despite an increase in Centris® sales

After hitting a low point in 2014, Centris® sales will pick up again over the forecast period. In 2015, under the combined effect of continued low borrowing costs and small gains in employment and incomes, there will

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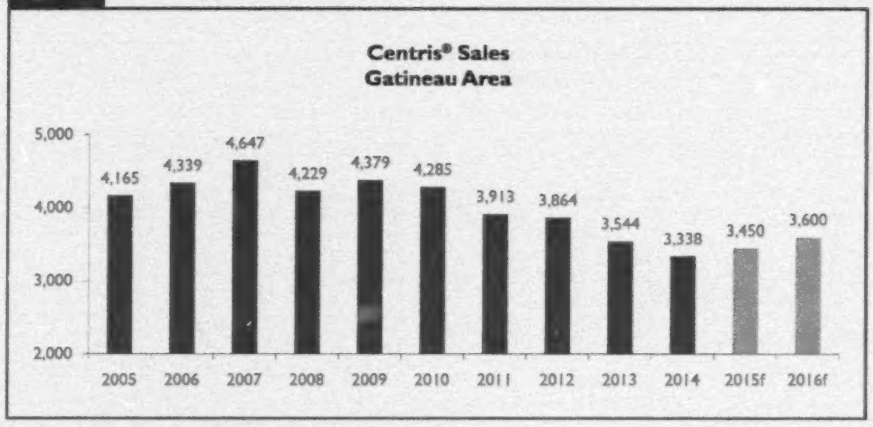
[2] Nearly 2,650 housing starts annually from 2004 to 2014.
[3] Some 231 units in March 2015 (ten-year average: 134 units).
[4] http://www.gatineau.ca/portail/default.aspx?p=guichet_municipal/subventions_commandites/programme_revitalisation_nouvelles_construction_nature_residentielle_ile_hull

be slightly more buyers on the resale market than in recent years. This trend will continue in 2016, thanks to some improvement in the regional economic conditions. Also, while remaining moderate, population growth in the 25 to 44 age group, which represents a large share of buyers, will also provide some support to the demand for existing units over the next two years. The number of transactions in the Centris® system will start to climb gradually, reaching 3,450 units in 2015 (+3 per cent) and then 3,600 units in 2016 (+4 per cent). Overall transaction levels will remain low, however, compared to recent years.[5]

On the supply side, listings in the Centris® system, that is, all properties for sale through real estate brokers, the upward trend that started in 2011 will continue. In fact, in 2014, new listings had risen and, with the slowdown in transactions, brought total active listings to an average of 3,270 units (+16 per cent), a new high. In 2015, even though transactions are picking up slightly, listing periods will remain significant. The average number of active listings will rise again, but to a lesser extent than in the past, and reach 3,600 units (+10 per cent). This upward trend in supply will continue in 2016, but the increase will be limited by the same dynamics as this year. The average yearly number of active listings will reach 3,700 units next year (+3 per cent).

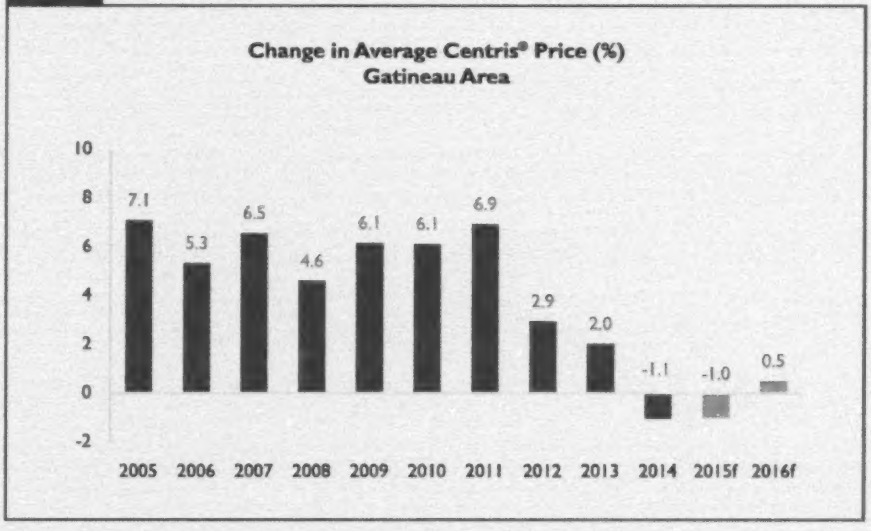
With the continued growth in the supply of existing homes, market conditions will keep easing over the next two years. In 2014, Gatineau's resale market had crossed into buyer's territory.[6] In 2015, market conditions will remain favourable to buyers. As was the case last year, the condominium segment will post the softest market conditions this year. This situation will result in little pressure on prices, on the overall market. In 2015, the average Centris® price will be about $238,300, down 1 per cent from 2014. In 2016, with a slightly more significant gain in sales, the gap between supply and demand will decrease slightly and prices will stabilize. The average Centris® price will reach nearly $239,500, a level similar to that expected for this year.

Figure 2



Source: QFREB, statistics Centris® f: CMHC forecasts

Figure 3



[5] On average, from 2004 to 2014, the resale market had recorded 4,078 transactions annually.

[6] The balanced range is between 8 and 10 sellers per buyer, indicating a market where neither buyers nor sellers are favoured. When this ratio is above 10 to 1, the power relationship between buyers and sellers changes and the edge goes to buyers.

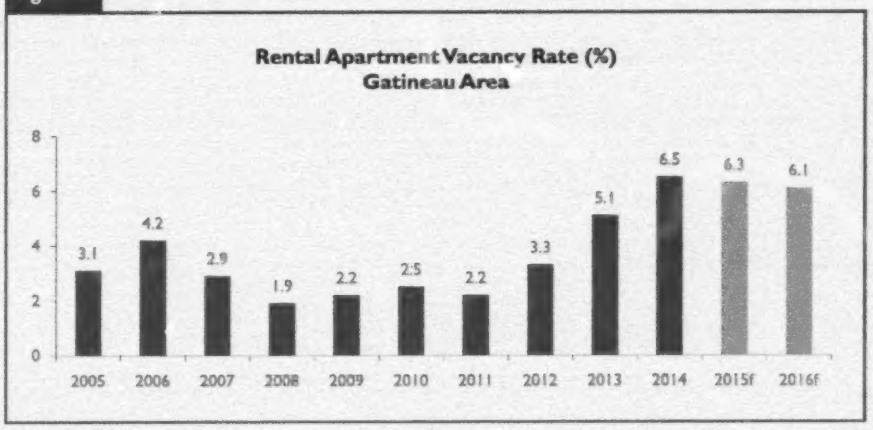
Rental market: conditions will remain soft

After significantly easing over the last three years, conditions on Gatineau's rental market will stabilize. This will be attributable to a slight increase in demand that will exceed the small rise in the supply of rental housing.

On the one hand, demand for rental housing will rise moderately this year and next in Gatineau. In fact, it is expected that the improving economic outlook for young people and the slight rise in net migration will result in an increase in renter household formation.

On the other hand, the supply of traditional rental units will grow, albeit marginally, in 2015 and 2016. In fact, the completion of new rental units will be reduced by the weak activity on the new home market. Therefore, fewer new rental units will be added to the area's housing stock year after year. However, rental condominiums will continue to attract a significant share of renters, thereby absorbing part of the increase in rental housing demand. On the resale market, the soft conditions will encourage some sellers, particularly of condominiums, to opt for renting. Meanwhile, on the new home market, some builders will likely be tempted to turn to the rental market to clear their newly completed condominiums and those that are taking a long time to sell. Together, these situations will fuel the supply of rental condominiums and provide competition for the supply of traditional rental units.

Figure 4



Source: CMHC f: CMHC forecasts

All together, these factors will contribute to stabilize rental market conditions over the forecast period. After climbing to 6.5 per cent in 2014, the vacancy rate will therefore remain relatively stable, but above the 6-per-cent mark, reaching 6.3 per cent in 2015 and 6.1 per cent in 2016.

Employment recovery will modestly support housing demand

After going through a difficult period, Gatineau's job market picked up in 2014. In 2015, the upward trend will continue, and employment growth will reach close to 1.2 per cent. Gains will rather be recorded in the private sector, as the expected increase in consumer spending will particularly support the trade sector. Given the federal government's efforts to maintain a balanced budget, the public administration sector, a significant employer in the area, will remain stable. Also, employment gains will be observed, in particular, among people aged from 25 to 44, a group for which employment had stagnated in recent years. Given that most homebuyers are in this age group, this will have a positive impact on housing demand.[7] In 2016, the economic situation will continue to improve, and the number of employed people in the Gatineau area will pick up at a similar pace to that expected this year. This increase will also be essentially attributable to the private sector and will give a boost to housing demand.

Net migration in the area was strongly affected by the slowdown in employment over the past few years (see text box). The continued improvement in employment this year and next will help support Gatineau's appeal and retention capacity. Interprovincial and intraprovincial population flows will be slightly more favourable to the area than in the recent past. Immigrants, for their part, will continue to arrive on an ongoing basis this year and next, providing the main support to net migration

[7] According to data from Statistics Canada's National Household Survey, close to 70 per cent of homebuyers in the Gatineau area were less than 44 years old.

in the area. Net migration will reach 700 people in 2015 and then climb to 900 people in 2016. It should be noted that these levels remain below the average of the last ten years (around 2,600 people annually). This increase will still help support rental housing demand, as the vast majority of migrants tend to rent when they arrive in the country.[8]

In addition, based on the demographic outlook of the Institut de la statistique du Québec, household growth in the entire Gatineau area will remain modest overall. In fact, the pace of household growth in the area will reach 1.7 per cent in 2015 and 1.6 per cent in 2016. The growth of households aged from 25 to 44 will be relatively moderate, at around 1.3 per cent, while the formation of households aged 15 to 24 will slow down somewhat (-1.7 per cent in 2015 and -2.5 per cent in 2016). Therefore, the pressure on housing demand will remain moderate in this regard, especially on the part of young people.

Mortgage rates are expected to remain at or close to current levels over the forecast horizon

Mortgage rates will continue to be supportive of housing demand. Consistent with the view of Canadian economic forecasters, CMHC expects interest rates to remain at or very close to current levels over the forecast horizon.

According to CMHC's base case scenario for 2015, the one-year mortgage rate is expected to be in the 2.30 to 3.50 per cent range, while the five-year rate is forecast to be within the 4.00 to 5.50 per cent range. For 2016, the one-year mortgage rate is expected to be in the 2.40 to 4.00 per cent range, while the five-year rate is forecast to be within the 4.20 to 6.20 per cent range.

[8] According to data from Statistics Canada's National Household Survey, close to two third of recent migrants chose to rent.

Trends at a glance

Key Factors and their Effects on Housing Starts	
Mortgage Rates	Mortgage rates will remain low by historical standards and supportive of housing demand.
Employment	Employment in the area should grow slightly in 2015 and 2016. This trend will slightly support housing demand.
Income	Average weekly earnings will post small gains this year and next. Income growth will help support housing demand to some extent.
Population	Net migration will improve progressively but will remain relatively weak compared to recent years, which will slightly support housing demand in the Gatineau area. As well, the growth in households will remain weak overall.
Resale Market	The broader choice of existing homes for sale will cause demand for new homes to slow down.

Forecast risks

In addition to factors with impacts at the national and provincial levels, there are some risk factors specific to the Gatineau area, such as the following:

- The situation in the public administration sector, a significant component of employment in the area, will remain uncertain over the next two years. Less hiring than anticipated could reduce the appeal of the area and lead to less significant demand in all housing market segments.
- Interregional migration flows could be less favourable than anticipated for the region. This could contribute to limiting demand on the rental market and also the number of potential buyers. Should this be the case, rental and resale market conditions could ease further than expected.
- Weaker economic growth than anticipated would result in a lower housing demand than expected. Consequently, residential construction could slow down further and the decrease in existing home prices could be more significant.

Spotlight on...

Components of net migration in the Gatineau area

According to our estimates, net migration in the Gatineau area should reach some 259 people for 2014.

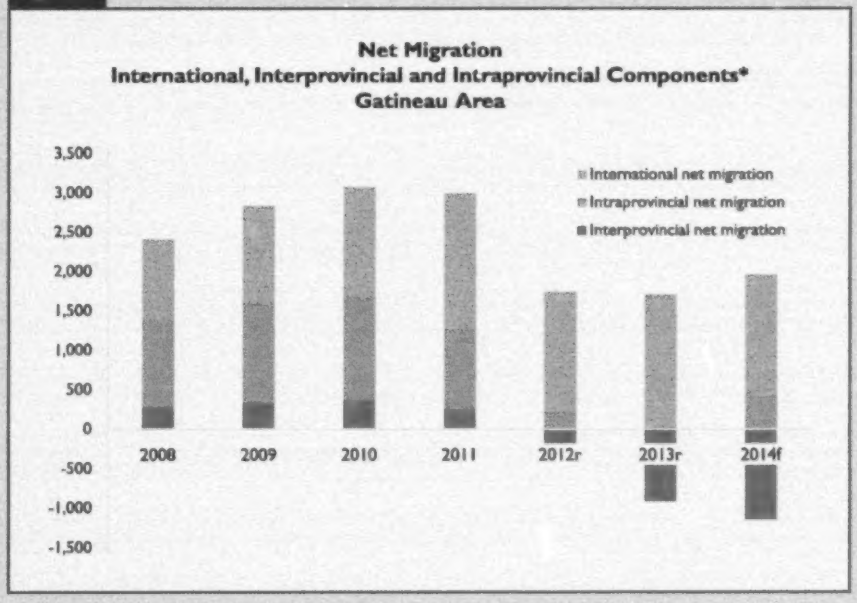
This positive result is mainly attributable to the steady number of immigrants arriving in the area, which brought net international migration to some 1,500 people annually in the past five years. However, the picture is totally different when taking a detailed look at migration flows with the other provinces and the various regions of Quebec. In fact, for these two components of net migration, the situation has significantly deteriorated since 2012, the year when employment began to slow down.

On the one hand, the Gatineau area now loses more people to other provinces (especially Ontario) than it gains. The interprovincial migration deficit has progressively widened since 2012, reaching 1,100 people in 2014, which has contributed significantly to the decrease in net migration in the area.

On the other hand, the Gatineau area has also lost some of its appeal compared to other areas in the province. In fact, on the whole, the area attracted some 400 people in 2014, which was well below the levels recorded from 2008 to 2012 (more than 1,000 people annually). These people were mostly from the Island of Montréal and the surrounding suburbs.

Low net migration has had a significant impact on the housing market over the past few years, by contributing to the slowdown in overall housing demand, but it has especially impacted the rental market. In fact, according to census data, close to two thirds of newcomers opt for rental housing when they arrive. So, the expected increase in net migration should support, albeit modestly, rental housing demand over the next two years.

Figure 5



Sources: Statistics Canada, Institut de la statistique du Québec, CMHC calculations.
r: Revised figures
f: Revisions by Statistics Canada and estimates by the Institut de la statistique du Québec
* Net migration is the sum of several components, including non-permanent residents. For conciseness, the components presented are not exhaustive. Therefore, their sum is not equal to the area's net migration.

Forecast Summary Gatineau CMA Spring 2015							
	2012	2013	2014	2015(F)	% chg	2016(F)	% chg
New Home Market							
Starts:							
Single-Detached	688	475	479	450	-6.1	425	-5.6
Multiples	2,071	1,449	1,424	1,350	-5.2	1,300	-3.7
Starts - Total	2,759	1,924	1,903	1,800	-5.4	1,725	-4.2
Average Price ($):							
Single-Detached	366,940	380,056	405,222	420,000	3.6	440,000	4.8
New Housing Price Index (% chg.) (Ottawa-Gatineau)	2.6	0.4	-1.1	2.0	-	1.5	-
Resale Market[1]							
Centris® Sales	3,864	3,544	3,338	3,450	3.4	3,600	4.3
Centris® Active Listings	7,706	7,966	8,461	8,600	1.6	8,750	1.7
Centris® Active Listings	2,353	2,807	3,270	3,600	10.1	3,700	2.8
Centris® Average Price ($)	238,536	243,355	240,776	238,300	-1.0	239,500	0.5
Rental Market[2]							
October Vacancy Rate (%)	3.3	5.1	6.5	6.3	-	6.1	-
Two-bedroom Average Rent (October) ($)	743	744	750	755	0.7	760	0.7
Economic Overview							
Mortgage Rate (1 year) (%)	3.17	3.08	3.14	2.30 to 3.50	-	2.40 to 4.00	-
Mortgage Rate (5 year) (%)	5.27	5.24	4.88	4.00 to 5.50	-	4.20 to 6.20	-
Annual Employment Level	172,900	171,000	173,200	175,300	1.2	177,000	1.0
Employment Growth (%)	0.7	-1.1	1.3	1.2	-	1.0	-
Unemployment rate (%)	6.3	6.3	7.0	7.3	-	6.8	-
Net Migration	1,822	663	259	700	170.3	900	28.6

[1]The Centris® system contains all the listings of Québec real estate brokers.

[2]Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Statistics Canada (CANSIM), Centris® Statistics. CMHC Forecast (2015-2016)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly Starts and Completions Survey. Building permits are used to determine construction sites and visits confirm construction stages. A start is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's Market Absorption Survey, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "absorbed" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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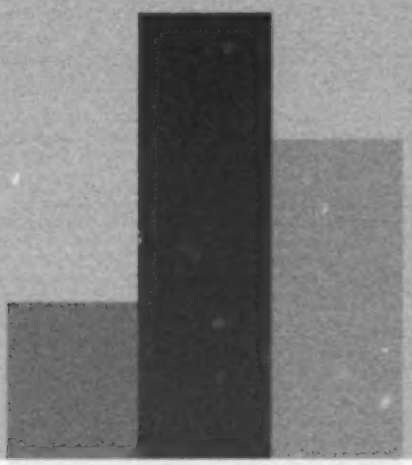

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